

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF**

Paul B. Townes



**DOCKET NO. 2007-286-W/S
APPLICATION OF
UTILITIES SERVICES OF SOUTH CAROLINA, INC.
FOR ADJUSTMENT OF RATES AND CHARGES**

TESTIMONY OF PAUL B. TOWNES**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2007-286-W/S****IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Paul B. Townes. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as an Audit Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received my Master of Accountancy from the University of South Carolina in 1979. I have over twenty-five years of accounting experience including public accounting and private industry. I have been employed with the ORS since January 2006. I am a licensed Certified Public Accountant in the State of South Carolina.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING UTILITIES SERVICES OF SOUTH CAROLINA, INC.?

A. The purpose of my testimony is to set forth my findings and recommendations resulting from ORS's examination of the application of Utilities Services of South Carolina, Inc. ("USSC") for a rate increase in this docket, 2007-286-W/S. The contents of my testimony and attached exhibits were either prepared by me or were

1 prepared under my direction and supervision in compliance with recognized
2 accounting and regulatory procedures for Water and Wastewater utility rate cases.

3 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
4 **TESTIMONY.**

5 A. There are eight exhibits included in my testimony. Audit Exhibit PBT-1 is a
6 summary of the operating experience, rate base and rate of return as posted and after
7 pro forma adjustments and the effect of USSC's proposed increase. Audit Exhibit
8 PBT-2 and Audit Exhibit PBT-3 provide the details of the water operation and the
9 sewer operation as summarized in Audit Exhibit PBT-1. Audit Exhibit PBT-4 details
10 various pro forma adjustments posted to Audit Exhibit PBT-1. Audit Exhibit PBT-5
11 details the depreciation and amortization. Audit Exhibit PBT-6 details the
12 computation of income tax. Audit Exhibit PBT-7 details the computation of working
13 capital. Audit Exhibit PBT-8 details the return on common equity and capital
14 structure.

15 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT PBT-1.**

16 A. Column (1) shows per book balances for USSC as of December 31, 2006. The per
17 book balances were verified to the books and records of USSC.
18 Column (2) shows the ORS accounting and pro forma adjustments designed to
19 normalize USSC's per book operations.
20 Column (3) shows the computation of USSC's normalized test year prior to showing
21 the requested increase.

Column (4) shows the adjustments for the USSC's proposed increase and associated adjustments.

Column (5) shows the computation of the normalized test year after accounting and pro forma adjustments, the requested rate increase and associated adjustments.

Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT PBT-1 – OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN - COMBINED.

A. Column (1) shows the per books operating experience of USSC. We computed Net Income for Return of \$154,918 based on Total Operating Revenues of \$2,848,169 less Total Operating Expenses of \$2,693,251. Total Per Book Rate Base amounted to \$9,724,173. ORS computed a Return on Rate Base of 1.59% using Net Income for Return of \$154,918 divided by the Total Rate Base of \$9,724,173.

Column (2) shows ORS's accounting and pro forma adjustments used to normalize USSC's per book operations. A description of each adjustment is contained in Audit Exhibit PBT- 4.

Column (3) is the sum of Columns (1) and (2) and reflects the As Adjusted figures. After accounting and pro forma adjustments, USSC's Total Operating Revenues of \$3,026,716 less Total Operating Expenses of \$2,766,758 produced Total Operating Income of \$259,958. Customer Growth of \$731 was added to this amount for Net Income for Return of \$260,689. Total As Adjusted Rate Base amounted to \$9,109,660. ORS computed a Return on Rate Base as adjusted of 2.86% using Net Income for Return of \$260,689 divided by the Total Rate Base of \$9,109,660.

Column (4) shows the effect of the proposed increase as requested by USSC. These adjustments are detailed in Audit Exhibit PBT- 4.

Column (5) shows per book operations, adjusted for accounting and pro forma adjustments and the requested increase. Using Total Operating Revenues of \$4,415,435 less Total Operating Expenses of \$3,306,678, and adding Customer Growth of \$3,439, ORS computed Net Income for Return of \$1,112,196. Net Income for Return of \$1,112,196 divided by Total Rate Base of \$9,109,660 produced a Rate of Return on Rate Base of 12.21%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT PBT - 4.

A. The adjustments are as follows:

Adjustment No. 1 - Service Revenues – ORS's Water and Wastewater Department proposes to adjust service revenues using billing information for the test year ended December 31, 2006. Total As Adjusted Service Revenues of \$2,980,635 less the per book amount of \$2,800,938, resulted in a total adjustment of \$179,697.

Adjustment No. 2 – Miscellaneous Revenue – ORS's Water and Wastewater Department proposes to adjust miscellaneous revenues using billing information for the test year ended December 31, 2006. Total As Adjusted Miscellaneous Revenues of \$78,314 less the per book amount of \$77,521 resulting in a total adjustment of \$793.

Adjustment No. 3 – Uncollectible Accounts – ORS's Water and Wastewater Department proposes to adjust uncollectible accounts using billing information for the test year ended December 31, 2006. Total As Adjusted Uncollectible Accounts of

1 (\$32,233) less the per book amount of (\$30,290), resulted in a total adjustment of
2 (\$1,943).

3 Adjustment No. 4 – Wage Adjustment - ORS proposes to annualize operators'
4 salaries and wages, excluding bonuses, based on the wage increase as of July 1,
5 2007. ORS reviewed the latest payroll information to verify the pay increase and the
6 current level of employees. ORS verified and recomputed the percentage of salaries
7 allocated to USSC. ORS's annualized wages totaled \$659,503, less per book wages
8 of \$535,112 for an adjustment of \$124,391.

9 Adjustment No. 5 – Purchased Water Expense – ORS proposes to remove purchased
10 water expense with the exception of six subdivisions that will not receive pass-
11 through treatment. This method would allow USSC to pass the cost of water directly
12 to its affected customers without mark-up. Allowable purchased water expense
13 totaled \$51,026 for the following excluded subdivisions: Milmont Shores, Country
14 Oaks, Bridgewater, Nevitt Forest, Leon Bolt, and Normandy Park. These amounts
15 were verified to USSC's general ledger. ORS proposes to remove (\$85,049) for the
16 remaining subdivisions.

17 Adjustment No. 6 – Maintenance and Repair Expense – ORS proposes to remove
18 (\$2,215) related to a well abandonment that should have been capitalized and
19 (\$9,705) of deferred maintenance. Also, ORS did not adjust the expense for any
20 Consumer Price Index as detailed in the following adjustments.

21 Adjustment Nos. 7 - 9 – Consumer Price Index – Maintenance Testing, Meter
22 Reading, and Chemicals Expense - USSC proposes to increase certain expenses by

4.4% to reflect inflation in accordance with a Consumer Price Index. ORS proposes not to adjust expenses using the CPI index as these adjustments would be based upon economic forecasts rather than known and measurable transactions.

Adjustment No. 10 – Transportation Expenses – ORS proposes no increase in transportation expense for one new employee. ORS verified the vehicles to USSC's operator assignments and noted that no additional vehicles are needed.

Adjustment No. 11 – Operating Expense Charged to Plant – ORS proposes to increase Operating Expenses Charged to Plant for the operators' wage increase. ORS used USSC's capitalization factor of 20.37%. ORS applied the factor to the total adjustment of \$829,155 for operators' wages, taxes, and benefits. This amounted to (\$168,899) less the per book number of (\$166,343) for an adjustment of (\$2,556).

Adjustment No. 12 – Transfer of Subdivisions – ORS proposes to remove expenses of (\$10,167) related to USSC's transfer of four subdivisions.

Adjustment No. 13 – DHEC Safe Water Testing Fee – ORS proposes to remove the over collection of the DHEC Safe Drinking Water Fees as these costs receive pass through treatment.

Adjustment No. 14 – Office Salaries - ORS proposes to annualize office salaries, excluding bonuses, based on a wage increase as of July 1, 2007. ORS reviewed the latest payroll information to verify the pay increase and the current salaries of the employees. The office salaries included the South Carolina office and allocations

1 from the corporate office. ORS's annualized wages totaled \$218,366, less per book
2 wages of \$212,712 for an adjustment of \$5,654.

3 Adjustment No. 15 – Consumer Price Index – Office Supplies and Other Office
4 Expenses - USSC proposes to increase certain expenses by 4.4% to reflect inflation
5 in accordance with a Consumer Price Index. ORS proposes not to adjust expenses
6 using the CPI index as these adjustments would be based upon economic forecasts
7 rather than known and measurable transactions.

8 Adjustment No. 16 – Rate Case Expenses - ORS proposes to adjust for rate case
9 expenses. ORS adjusted for actual expenses supported by USSC as of November 13,
10 2007. These expenses included legal and consulting fees, direct time spent on the
11 case by the corporate office staff, and postage expenses, resulting in total expenses of
12 \$104,318. Total rate case expenses of \$104,318 were amortized over two years as
13 proposed by USSC for an adjustment of \$52,159. The amortization period is
14 consistent with prior Commission approval and also consistent with USSC's current
15 filing for a rate increase within two years.

16 Adjustment No. 17 – Annualize Pension and Other Benefits – ORS proposes to
17 annualize pension and other benefits associated with the wage adjustment for
18 operators and office employees which is based on the wage increase as of July 1,
19 2007. ORS's adjustment for total pension and benefits was \$153,366 less the per
20 book amount of \$141,548 resulting in an adjustment of \$11,818. A portion of this
21 adjustment has been charged to plant in Adjustment No. 11 for capitalized benefits
22 for the operators.

1 Adjustment No. 18 – Rent Expense - ORS proposes to adjust rental expenses as
2 verified by a lease provided by USSC for a total adjustment of (\$1,850).
3 Additionally, ORS proposes not to adjust expenses using the CPI index as these
4 adjustments would be based upon economic forecasts rather than known and
5 measurable transactions.

6 Adjustment No. 19 – Consumer Price Index Adjustment – Office Utilities - USSC
7 proposes to increase certain expenses by 4.4% to reflect inflation in accordance with
8 a Consumer Price Index. ORS proposes not to adjust expenses using the CPI index as
9 these adjustments would be based upon economic forecasts rather than known and
10 measurable transactions.

11 Adjustment No. 20 – Allocation Adjustment – USSC and ORS propose to correct a
12 Carolina Water Service, Incorporated allocation error as reported by USSC.

13 Adjustment No. 21 – Fines and Penalties – USSC and ORS propose to remove fines
14 and penalties as reported by USSC.

15 Adjustment No. 22 – Depreciation Expense Adjustment – ORS proposes to annualize
16 Depreciation Expense. ORS adjusted for plant additions completed after the test year
17 to the plant amount. ORS removed items which were not depreciable or would be
18 depreciated as separate line items. ORS also added to depreciation expense,
19 extraordinary amortization for retired plant after the test year, and amortization of
20 plant retired prior to the filing of the last rate case. ORS used a depreciation rate of
21 1.50% (66.67 years) for general plant and 25.00% (4 years) for vehicles and
22 computers. These rates were recommended by ORS's Water and Wastewater

1 Department. Total ORS depreciation amounted to \$213,497 less the per book amount
2 of \$269,073 for an adjustment of (\$55,576). See Audit Exhibit PBT-5 for the
3 Depreciation and Amortization Adjustment.

4 Adjustment No. 23 – Amortization of Contributions in Aid of Construction (CIAC) –

5 ORS proposes to adjust the amortization of CIAC using a 1.5% depreciation rate.

6 ORS used the Gross CIAC balance at December 31, 2006 of \$109,542. To this
7 amount ORS applied the rate of 1.5% for an amortization amount of (\$1,643) less the
8 per book amortization of (\$863) for an adjustment of (\$780).

9 Adjustment No. 24 – Plant Acquisition Adjustment – ORS proposes to adjust the

10 amortization of the plant acquisition adjustment per Docket No. 2005-217-W/S.

11 Adjustment No. 25 – Payroll Taxes – ORS proposes to adjust for payroll taxes

12 associated with the wage adjustment. The payroll taxes include FICA, SUTA, and
13 FUTA taxes. ORS computed taxes of \$69,446 less the per book amount of \$62,897,
14 resulting in an adjustment of \$6,549.

15 Adjustment No. 26 – Utility/Commission Taxes & Gross Receipts Tax - ORS

16 proposes to reflect the Utility/Commission taxes and gross receipts taxes associated
17 with 'As Adjusted Revenue'. The factor includes administrative costs for the Public
18 Service Commission and ORS and a revenue tax from the SC Department of
19 Revenue for a total factor of .0101856. This factor is applied to pro forma revenue
20 adjustments of \$178,547 for a computed amount of \$1,819.

1 Adjustment No. 27 – Income Taxes – ORS proposes to adjust income taxes after the
2 accounting and pro forma adjustments. ORS and USSC used flat rates of 5% for
3 state income taxes and 35% for federal income taxes. See Audit Exhibit PBT – 6.

4 Adjustment No. 28 – Interest on Customer Deposits – ORS proposes to include
5 Interest on Customer Deposits by using the ORS verified balance at December 31,
6 2006 of \$113,812 and the PSC approved interest rate of 3.5%. ORS computed total
7 annualized Interest on Customer Deposits of \$3,983.

8 Adjustment No. 29 – Plant Additions from Projects – ORS proposes to adjust for
9 work orders completed after the test year. ORS verified an amount of \$841,096 as
10 completed work orders. These additions are known and measurable and providing
11 service to present customers.

12 Adjustment No. 30 – Plant Additions from Capitalized Time and Routine Activities -
13 ORS proposes to adjust for plant additions from capitalized time and the related
14 materials. ORS verified an amount of \$477,882 to USSC books and records. These
15 additions are known and measurable and providing service to present customers.

16 Adjustment No. 31 – Pro Forma Plant Retirements – ORS proposes to retire plant of
17 (\$137,713) associated with additions after the test year.

18 Adjustment No. 32 – Vehicle Allocation – ORS proposes to adjust the vehicle
19 allocation by (\$524,431). This adjustment includes (\$347,259) discovered by USSC
20 with the balance of the adjustment relating to vehicle allocations.

21 Adjustment No. 33 – Elevated Storage Tank – ORS proposes to remove (\$102,188)
22 for an elevated storage tank as ordered in Docket No. 2005-217-W/S.

1 Adjustment No. 34 – Extraordinary Retirement – ORS proposes to adjust for
2 extraordinary retirement of wells, structures, and tanks no longer used and useful by
3 USSC. These retirements include those listed in Docket No. 2005-217-W/S as well
4 as those retirements completed in 2006 and 2007. ORS removed these plant items
5 based on restated plant and accumulated depreciation for total removal of net plant of
6 (\$173,253).

7 Adjustment No. 35 – Plant Transfers – ORS proposes to remove (\$186,387) for the
8 plant costs associated with the transfer of Arrowhead Shores and Lakewood Estates
9 as ordered by the Commission in Order No. 2007-580.

10 Adjustment No. 36 – Plant Transfers – ORS proposes to remove (\$4,863) for the
11 plant costs associated with the transfer of Pleasant Hill as ordered by the Commission
12 in Order No. 2006-350 and South Congaree as ordered by the Commission in Order
13 No. 2002-567.

14 Adjustment No. 37 – Organizational Cost – ORS proposes to remove (\$25,417) of
15 organizational cost as ordered in Docket No. 2005-217-W/S.

16 Adjustment No. 38 – Accumulated Depreciation – ORS proposes to adjust
17 accumulated depreciation associated with the depreciation expense in Adjustment 22.

18 Adjustment No. 39 – Accumulated Depreciation-Vehicles – ORS proposes to adjust
19 accumulated depreciation for the excess vehicle allocation in Adjustment 32.

20 Adjustment No. 40 – Accumulated Depreciation – ORS proposes to adjust
21 accumulated depreciation associated with transfers as ordered by the Commission in
22 Order Nos. 2002-567, 2006-350, and 2007-580.

1 Adjustment No. 41 – Accumulated Depreciation – ORS proposes to adjust
2 accumulated depreciation for the USSC and pro forma retirements using the 13%
3 ratio of accumulated depreciation to water plant as of December 31, 2006. ORS
4 considers this methodology an equitable method to determine the related
5 accumulated depreciation associated with retirements.

6 Adjustment No. 42 – Accumulated Depreciation – ORS proposes to adjust
7 accumulated depreciation for the extraordinary retirement of wells, tanks, and other
8 structures.

9 Adjustment No. 43 – Accumulated Depreciation – ORS proposes to adjust
10 accumulated depreciation for the transfer of four subdivisions.

11 Adjustment No. 44 - Cash Working Capital Allowance – ORS proposes to adjust
12 Cash Working Capital for pro forma expenses. This adjustment reflects the working
13 capital needed prospectively based on the accounting and pro forma adjustments. See
14 Audit Exhibit PBT – 7 for details of the adjustment.

15 Adjustment No. 45 – Plant Acquisition Adjustment – ORS proposes to remove the
16 unamortized balance of the Plant Acquisition Adjustment from rate base as ordered
17 in 2005-217-W/S.

18 Adjustment No. 46 – Deferred Maintenance- USSC and ORS proposes to remove
19 deferred maintenance from the rate base as reported by USSC.

20 Adjustment No. 47 – Service Revenues – Company’s Proposed Increase – USSC’s
21 proposed rates calculated to an increase in service revenues by \$1,397,664.

Adjustment No. 48 – Miscellaneous Revenues - Proposed Increase – ORS calculates

an increase in miscellaneous revenues as it relates to the increase proposed by USSC in the previous adjustment. The adjustment totaled \$6,170.

Adjustment No. 49 – Uncollectible Accounts – Proposed Increase - ORS calculates

the uncollectible revenues associated with the USSC's proposed revenue increase.

The total adjustment is (\$15,115), comprised of (\$14,850) for water operations and (\$265) for the sewer operations.

Adjustment No. 50– Taxes Other Than Income – Proposed Increase – ORS

calculates the utility/commission taxes and gross receipts taxes associated with the net proposed revenue of \$1,388,719. ORS used a factor of .0101856 which is comprised of the Public Service Commission and Office of Regulatory Staff's factor and the Department of Revenue's factor. ORS's total adjustment is \$14,145.

Adjustment No. 51 – Income Taxes – Proposed Increase – ORS calculates the

income taxes for the proposed increase. ORS and USSC used a 5% rate for state taxes and a composite rate of 35% for federal taxes. See Audit Exhibit PBT – 6 for the Computation of Income Taxes.

PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

- A. Audit Exhibit PBT-5 shows the Depreciation and Amortization Expense Adjustment. Audit Exhibit PBT-6 shows the Computation of Income Taxes. Audit Exhibit PBT-7 shows the Cash Working Capital Allowance. Audit Exhibit PBT-8 shows the Return on Common Equity.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A. Yes, it does.

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2006
Combined Operations
Docket No. 2007-286-W/S

| <u>Description</u> | (1) <u>Per Company Books</u> \$ | (2) <u>ORS Accounting & Pro Forma Adjustments</u> \$ | (3) <u>After Accounting & Pro Forma Adjustments</u> \$ | (4) <u>Company's Proposed Increase</u> \$ | (5) <u>After Company's Proposed Increase</u> \$ |
|--|---|--|--|---|---|
| <u>Operating Revenues</u> | | | | | |
| Service Revenue - Water | 2,627,723 | 166,160 (A) | 2,793,883 | 1,376,368 (O) | 4,170,251 |
| Service Revenue - Sewer | 173,215 | 13,537 (A) | 186,752 | 21,296 (O) | 208,048 |
| Miscellaneous Revenues | 77,521 | 793 (B) | 78,314 | 6,170 (P) | 84,484 |
| Uncollectible Accounts | (30,290) | (1,943) (C) | (32,233) | (15,115) (Q) | (47,348) |
| <u>Total Operating Revenues</u> | <u>2,848,169</u> | <u>178,547</u> | <u>3,026,716</u> | <u>1,388,719</u> | <u>4,415,435</u> |
| <u>Operating Expenses</u> | | | | | |
| Operating & Maintenance Expenses | 1,325,622 | 26,085 (D) | 1,351,707 | 0 | 1,351,707 |
| General & Administrative Expenses | 796,149 | (85,154) (E) | 710,995 | 0 | 710,995 |
| Depreciation & Amortization Expenses | 286,057 | 40,108 (F) | 326,165 | 0 | 326,165 |
| Taxes Other Than Income | 427,337 | 8,368 (G) | 435,705 | 14,145 (R) | 449,850 |
| Income Taxes | (141,914) | 80,117 (H) | (61,797) | 525,775 (S) | 463,978 |
| Interest on Customer Deposits | 0 | 3,983 (I) | 3,983 | 0 | 3,983 |
| <u>Total Operating Expenses</u> | <u>2,693,251</u> | <u>73,507</u> | <u>2,766,758</u> | <u>539,920</u> | <u>3,306,678</u> |
| <u>Total Operating Income</u> | <u>154,918</u> | <u>105,040</u> | <u>259,958</u> | <u>848,799</u> | <u>1,108,757</u> |
| Customer Growth (Note) | 0 | 731 | 731 | 2,708 | 3,439 |
| <u>Net Income for Return</u> | <u>154,918</u> | <u>105,771</u> | <u>260,689</u> | <u>851,507</u> | <u>1,112,196</u> |
| <u>Original Cost Rate Base</u> | | | | | |
| Gross Plant in Service | 11,134,107 | 164,726 (J) | 11,298,833 | 0 | 11,298,833 |
| Accumulated Depreciation | (1,934,313) | 457,182 (K) | (1,477,131) | 0 | (1,477,131) |
| Net Plant in Service | 9,199,794 | 621,908 | 9,821,702 | 0 | 9,821,702 |
| Cash Working Capital | 265,221 | (7,383) (L) | 257,838 | 0 | 257,838 |
| Accumulated Deferred Income Taxes | (705,114) | 0 | (705,114) | 0 | (705,114) |
| Contributions in Aid of Construction | (107,639) | 0 | (107,639) | 0 | (107,639) |
| Plant Acquisition Adjustment | 1,200,820 | (1,200,820) (M) | 0 | 0 | 0 |
| Deferred Maintenance | 0 | (28,218) (N) | (28,218) | 0 | (28,218) |
| Customer Deposits | (128,909) | 0 | (128,909) | 0 | (128,909) |
| <u>Total Rate Base</u> | <u>9,724,173</u> | <u>(614,513)</u> | <u>9,109,660</u> | <u>0</u> | <u>9,109,660</u> |
| <u>Return on Rate Base</u> | <u>1.59%</u> | | <u>2.86%</u> | | <u>12.21%</u> |
| <u>Operating Margin</u> | <u>-9.82%</u> | | <u>-3.27%</u> | | <u>17.04%</u> |
| <u>Interest Expense</u> | <u>434,735</u> | | <u>359,720</u> | | <u>359,720</u> |

Note - Customer Growth is for Water Operations only.

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2006
Water Operations
Docket No. 2007-286-W/S

| <u>Description</u> | (1) <u>Per</u> <u>Company</u> <u>Books</u> <u>\$</u> | (2) <u>ORS</u> <u>Accounting</u> <u>& Pro Forma</u> <u>Adjustments</u> <u>\$</u> | (3) <u>After</u> <u>Accounting</u> <u>& Pro Forma</u> <u>Adjustments</u> <u>\$</u> | (4) <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u> | (5) <u>After</u> <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u> |
|--|--|---|---|--|--|
| <u>Operating Revenues</u> | | | | | |
| Service Revenue - Water | 2,627,723 | 166,160 (A) | 2,793,883 | 1,376,368 (O) | 4,170,251 |
| Miscellaneous Revenues | 49,991 | 514 (B) | 50,505 | 3,979 (P) | 54,484 |
| Uncollectible Accounts | (28,506) | (1,466) (C) | (29,972) | (14,850) (Q) | (44,822) |
| <u>Total Operating Revenues</u> | <u>2,649,208</u> | <u>165,208</u> | <u>2,814,416</u> | <u>1,365,497</u> | <u>4,179,913</u> |
| <u>Operating Expenses</u> | | | | | |
| Operating & Maintenance Expenses | 1,233,874 | 21,148 (D) | 1,255,022 | 0 | 1,255,022 |
| General & Administrative Expenses | 754,749 | (80,726) (E) | 674,023 | 0 | 674,023 |
| Depreciation & Amortization Expenses | 276,016 | 41,911 (F) | 317,927 | 0 | 317,927 |
| Taxes Other Than Income | 404,849 | 7,893 (G) | 412,742 | 13,908 (R) | 426,650 |
| Income Taxes | (133,556) | 59,181 (H) | (74,375) | 516,982 (S) | 442,607 |
| Interest on Customer Deposits | 0 | 3,776 (I) | 3,776 | 0 | 3,776 |
| <u>Total Operating Expenses</u> | <u>2,535,932</u> | <u>53,183</u> | <u>2,589,115</u> | <u>530,890</u> | <u>3,120,005</u> |
| <u>Total Operating Income</u> | <u>113,276</u> | <u>112,025</u> | <u>225,301</u> | <u>834,607</u> | <u>1,059,908</u> |
| Customer Growth (Note) | 0 | 731 | 731 | 2,708 | 3,439 |
| <u>Net Income for Return</u> | <u>113,276</u> | <u>112,756</u> | <u>226,032</u> | <u>837,315</u> | <u>1,063,347</u> |
| <u>Original Cost Rate Base</u> | | | | | |
| Gross Plant in Service | 10,778,046 | 92,721 (J) | 10,870,767 | 0 | 10,870,767 |
| Accumulated Depreciation | (1,883,784) | 437,060 (K) | (1,446,724) | 0 | (1,446,724) |
| Net Plant in Service | 8,894,262 | 529,781 | 9,424,043 | 0 | 9,424,043 |
| Cash Working Capital | 248,578 | (7,447) (L) | 241,131 | 0 | 241,131 |
| Accumulated Deferred Income Taxes | (667,586) | 0 | (667,586) | 0 | (667,586) |
| Contributions in Aid of Construction | (107,639) | 0 | (107,639) | 0 | (107,639) |
| Plant Acquisition Adjustment | 1,200,820 | (1,200,820) (M) | 0 | 0 | 0 |
| Deferred Maintenance | 0 | (21,477) (N) | (21,477) | 0 | (21,477) |
| Customer Deposits | (122,206) | 0 | (122,206) | 0 | (122,206) |
| <u>Total Rate Base</u> | <u>9,446,229</u> | <u>(699,963)</u> | <u>8,746,266</u> | <u>0</u> | <u>8,746,266</u> |
| <u>Return on Rate Base</u> | <u>1.20%</u> | | <u>2.58%</u> | | <u>12.16%</u> |

Note - Customer Growth is for Water Operations only.

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2006
Sewer Operations
Docket No. 2007-286-W/S

| <u>Description</u> | (1) <u>Per Company Books</u> \$ | (2) <u>ORS Accounting & Pro Forma Adjustments</u> \$ | (3) <u>After Accounting & Pro Forma Adjustments</u> \$ | (4) <u>Company's Proposed Increase</u> \$ | (5) <u>After Company's Proposed Increase</u> \$ |
|--|---|--|--|---|---|
| <u>Operating Revenues</u> | | | | | |
| Service Revenue - Sewer | 173,215 | 13,537 (A) | 186,752 | 21,296 (O) | 208,048 |
| Miscellaneous Revenues | 27,530 | 279 (B) | 27,809 | 2,191 (P) | 30,000 |
| Uncollectible Accounts | (1,784) | (477) (C) | (2,261) | (265) (Q) | (2,526) |
| <u>Total Operating Revenues</u> | <u>198,961</u> | <u>13,339</u> | <u>212,300</u> | <u>23,222</u> | <u>235,522</u> |
| <u>Operating Expenses:</u> | | | | | |
| Operating & Maintenance Expenses | 91,748 | 4,937 (D) | 96,685 | 0 | 96,685 |
| General & Administrative Expenses | 41,400 | (4,428) (E) | 36,972 | 0 | 36,972 |
| Depreciation & Amortization Expenses | 10,041 | (1,803) (F) | 8,238 | 0 | 8,238 |
| Taxes Other Than Income | 22,488 | 475 (G) | 22,963 | 237 (R) | 23,200 |
| Income Taxes | (8,358) | 20,936 (H) | 12,578 | 8,793 (S) | 21,371 |
| Interest on Customer Deposits | 0 | 207 (I) | 207 | 0 | 207 |
| <u>Total Operating Expenses</u> | <u>157,319</u> | <u>20,324</u> | <u>177,643</u> | <u>9,030</u> | <u>186,673</u> |
| <u>Total Operating Income</u> | <u>41,642</u> | <u>(6,985)</u> | <u>34,657</u> | <u>14,192</u> | <u>48,849</u> |
| Customer Growth | 0 | 0 | 0 | 0 | 0 |
| <u>Net Income for Return</u> | <u>41,642</u> | <u>(6,985)</u> | <u>34,657</u> | <u>14,192</u> | <u>48,849</u> |
| <u>Original Cost Rate Base</u> | | | | | |
| Gross Plant in Service | 356,061 | 72,005 (J) | 428,066 | 0 | 428,066 |
| Accumulated Depreciation | (50,529) | 20,122 (K) | (30,407) | 0 | (30,407) |
| Net Plant in Service | 305,532 | 92,127 | 397,659 | 0 | 397,659 |
| Cash Working Capital | 16,643 | 64 (L) | 16,707 | 0 | 16,707 |
| Accumulated Deferred Income Taxes | (37,528) | 0 | (37,528) | 0 | (37,528) |
| Contributions in Aid of Construction | 0 | 0 | 0 | 0 | 0 |
| Plant Acquisition Adjustment | 0 | 0 (M) | 0 | 0 | 0 |
| Deferred Maintenance | 0 | (6,741) (N) | (6,741) | 0 | (6,741) |
| Customer Deposits | (6,703) | 0 | (6,703) | 0 | (6,703) |
| <u>Total Rate Base</u> | <u>277,944</u> | <u>85,450</u> | <u>363,394</u> | <u>0</u> | <u>363,394</u> |
| <u>Return on Rate Base</u> | <u>14.98%</u> | | <u>9.54%</u> | | <u>13.44%</u> |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> | <u>Water</u> | <u>Sewer</u> |
|--|-----------------|----------------|---------------|
| | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| <u>(A) Service Revenues</u> | | | |
| 1. ORS and USSC propose to adjust operating revenues to reflect current customers at current rates. | | | |
| Per ORS | 179,697 | 166,160 | 13,537 |
| Per USSC | 38,779 | 35,794 | 2,985 |
| Total Service Revenues - Per ORS | 179,697 | 166,160 | 13,537 |
| <u>(B) Miscellaneous Revenues</u> | | | |
| 2. ORS proposes to adjust miscellaneous revenues to reflect current customers at current rates. | | | |
| Per ORS | 793 | 514 | 279 |
| Per USSC | 0 | 0 | 0 |
| Total Miscellaneous Revenues - Per ORS | 793 | 514 | 279 |
| <u>(C) Uncollectible Accounts</u> | | | |
| 3. ORS and USSC propose to adjust uncollectible expense based on the test year percentage of uncollectible accounts applied to the proforma proposed revenues. | | | |
| Per ORS | (1,943) | (1,466) | (477) |
| Per USSC | (419) | (388) | (31) |
| Total Uncollectible Accounts - Per ORS | (1,943) | (1,466) | (477) |
| <u>(D) Operating and Maintenance Expenses</u> | | | |
| 4. ORS and USSC propose to annualize operators' salaries. ORS annualized salaries using the actual wage increase as of 7/1/2007, excluding bonuses. | | | |
| Per ORS | 124,391 | 117,923 | 6,468 |
| Per USSC | 154,024 | 146,011 | 8,013 |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> | <u>Water</u> | <u>Sewer</u> |
|--|-----------------|--------------|--------------|
| | \$ | \$ | \$ |
| 5. ORS proposes to remove purchased water costs revenue and record in the restated revenue adjustment. USSC proposes to net the water expense by the recovered revenue. ORS proposes to cap purchases by any water loss more than 10% at any subdivision. | | | |
| Per ORS | (85,049) | (85,049) | 0 |
| Per USSC | (67,429) | (67,429) | 0 |
| 6. USSC proposes to increase Maintenance and Repair expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. Deferred maintenance has been removed as proposed by the company and accepted by ORS. ORS also proposes to remove \$2,215 related to well abandonment charges that should have been capitalized. | | | |
| Per ORS | (11,920) | (11,050) | (870) |
| Per USSC | 2,113 | 2,983 | (870) |
| 7. USSC proposes to increase Maintenance Testing expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. | | | |
| Per ORS | 0 | 0 | 0 |
| Per USSC | 1,342 | 1,106 | 236 |
| 8. USSC proposes to increase Meter Reading expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. | | | |
| Per ORS | 0 | 0 | 0 |
| Per USSC | 1,031 | 1,031 | 0 |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> \$ | <u>Water</u> \$ | <u>Sewer</u> \$ |
|--|-----------------------|----------------------|---------------------|
| 9. USSC proposes to increase Chemicals expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. | | | |
| Per ORS | 0 | 0 | 0 |
| Per USSC | 3,803 | 3,605 | 198 |
| 10. USSC proposes to increase transportation expense for one new employee. ORS does not propose to accept this adjustment due to existing vehicle assets. | | | |
| Per ORS | 0 | 0 | 0 |
| Per USSC | 6,440 | 6,105 | 335 |
| 11. ORS and USSC propose to increase Operating Expense Charged to Plant to reflect the increase in salaries, taxes, and benefits for operators. ORS and USSC allocated this amount based on USSC's capitalization ratio of 20.37%. | | | |
| Per ORS | (2,556) | (2,423) | (133) |
| Per USSC | (9,341) | (8,855) | (486) |
| 12. ORS proposes to adjust Operating and Maintenance expenses related to USSC's transfer of four subdivisions. | | | |
| Per ORS | (10,167) | (9,639) | (528) |
| Per USSC | 0 | 0 | 0 |
| 13. ORS proposes to eliminate the over collection of the DHEC Safe Water Testing Fee. | | | |
| Per ORS | 11,386 | 11,386 | 0 |
| Per USSC | 0 | 0 | 0 |
| <u>Total Operating and Maintenance Expenses - Per ORS</u> | <u>26,085</u> | <u>21,148</u> | <u>4,937</u> |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> | <u>Water</u> | <u>Sewer</u> |
|--|-----------------|--------------|--------------|
| | \$ | \$ | \$ |
| <u>(E) General and Administrative Expenses</u> | | | |
| 14. ORS and USSC propose to annualize office salaries. ORS annualized salaries using the actual wage increase as of 7/1/2007, excluding bonuses. | | | |
| Per ORS | 5,654 | 5,360 | 294 |
| Per USSC | 17,229 | 16,332 | 897 |
| 15. USSC proposes to increase Office Supplies and Other Office expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. | | | |
| Per ORS | 0 | 0 | 0 |
| Per USSC | 7,504 | 7,114 | 390 |
| 16. ORS and USSC propose to amortize current rate case expenses. ORS proposes to amortize rate case expenses as of November 13, 2007 of \$104,318 over a two-year period for an adjustment of \$52,159. | | | |
| Per ORS | 52,159 | 49,447 | 2,712 |
| Per USSC | 177,121 | 167,911 | 9,210 |
| 17. ORS and USSC propose to annualize Pension and Other Benefits expense associated with the wage increase. | | | |
| Per ORS | 11,818 | 11,203 | 615 |
| Per USSC | 12,999 | 12,322 | 677 |
| 18. USSC proposes to increase Rent expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. ORS adjusted to the company's current lease payments. | | | |
| Per ORS | (1,850) | (1,754) | (96) |
| Per USSC | 509 | 483 | 26 |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> \$ | <u>Water</u> \$ | <u>Sewer</u> \$ |
|--|------------------------|------------------------|-----------------------|
| 19. USSC proposes to increase Office Utilities expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. | | | |
| Per ORS | 0 | 0 | 0 |
| Per USSC | 1,840 | 1,744 | 96 |
| 20. USSC and ORS propose to make a correction of an allocation adjustment. | | | |
| Per ORS | (149,318) | (141,553) | (7,765) |
| Per USSC | (149,318) | (141,553) | (7,765) |
| 21. USSC and ORS propose to remove fines and penalties. | | | |
| Per ORS | (3,617) | (3,429) | (188) |
| Per USSC | (3,617) | (3,429) | (188) |
| <u>Total General and Administrative Expenses-Per ORS</u> | <u>(85,154)</u> | <u>(80,726)</u> | <u>(4,428)</u> |
| <u>(F) Depreciation and Amortization Expenses</u> | | | |
| 22. ORS and USSC propose to annualize Depreciation expense using the adjusted plant in service. See Audit Exhibit PBT-5 for the details of the adjustment. | | | |
| Per ORS | (55,576) | (53,773) | (1,803) |
| Per USSC | 3,449 | 2,631 | 818 |
| 23. ORS and USSC propose to adjust the Amortization of Contributions In Aid of Construction as of December 31, 2004. | | | |
| Per ORS | (780) | (780) | 0 |
| Per USSC | (780) | (780) | 0 |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> \$ | <u>Water</u> \$ | <u>Sewer</u> \$ |
|--|-----------------------|----------------------|-----------------------|
| 24. ORS and USSC propose to adjust for the amortization of the Plant Acquisition Adjustment. ORS's Plant Acquisition Adjustment was computed using ORS's restated plant and accumulated depreciation at acquisition. | | | |
| Per ORS | 96,464 | 96,464 | 0 |
| Per USSC | 96,464 | 96,464 | 0 |
| <u>Total Depreciation and Amortization Expenses - Per ORS</u> | <u>40,108</u> | <u>41,911</u> | <u>(1,803)</u> |
| <u>(G) Taxes Other Than Income</u> | | | |
| 25. ORS adjusted payroll taxes for the annualized payroll adjustment based on the wage increase as of 7/1/2007. | | | |
| Per ORS | 6,549 | 6,210 | 339 |
| Per USSC | 10,543 | 9,994 | 549 |
| 26. ORS proposes to adjust utility/commission taxes and gross receipts taxes for the effect of the accounting and pro forma adjustments. | | | |
| Per ORS | 1,819 | 1,683 | 136 |
| Per USSC | 442 | 408 | 34 |
| <u>Total Taxes Other Than Income - Per ORS</u> | <u>8,368</u> | <u>7,893</u> | <u>475</u> |
| <u>(H) Income Taxes - After Accounting & Pro Forma Adjustments</u> | | | |
| 27. ORS and USSC propose to adjust income taxes for the effect of the accounting and pro forma adjustments using a state tax rate of 5% and a federal tax rate of 35%. | | | |
| Per ORS | 80,117 | 59,181 | 20,936 |
| Per USSC | (94,624) | (106,410) | 11,786 |
| <u>Total Income Taxes - After Accounting & Pro Forma Adjustments - Per ORS</u> | <u>80,117</u> | <u>59,181</u> | <u>20,936</u> |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> \$ | <u>Water</u> \$ | <u>Sewer</u> \$ |
|--|-----------------------|---------------------|--------------------|
| <u>(I) Interest on Customer Deposits</u> | | | |
| 28. ORS proposes to include annualized interest on customer deposits using the test year ending balance and the most recently PSC approved interest rate of 3.50%. | | | |
| Per ORS | 3,983 | 3,776 | 207 |
| Per USSC | 0 | 0 | 0 |
| <u>Total Interest on Customer Deposits - Per ORS</u> | <u>3,983</u> | <u>3,776</u> | <u>207</u> |
| <u>(J) Gross Plant In Service</u> | | | |
| 29. ORS and USSC propose to include plant for construction work orders completed as of October 2007. | | | |
| Per ORS | 841,096 | 752,230 | 88,866 |
| Per USSC | 1,259,722 | 1,153,569 | 106,153 |
| 30. ORS and USSC propose to include routine plant additions and capitalized time after the test year up to September 2007. | | | |
| Per ORS | 477,882 | 442,497 | 35,385 |
| Per USSC | 487,949 | 468,111 | 19,838 |
| 31. ORS and USSC propose to adjust for plant retirements associated with the completed work orders as of October 2007. Adjustments to Accumulated Depreciation are reflected in Adjustment No. 35. | | | |
| Per ORS | (137,713) | (137,713) | 0 |
| Per USSC | (192,667) | (192,667) | 0 |
| 32. ORS and USSC propose to adjust the allocation of vehicles included in rate base. | | | |
| Per ORS | (524,431) | (497,161) | (27,270) |
| Per USSC | 0 | 0 | 0 |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> \$ | <u>Water</u> \$ | <u>Sewer</u> \$ |
|---|-----------------------|--------------------|--------------------|
| 33. ORS and USSC propose to remove an elevated storage tank which is no longer used by the Company as ordered in Docket No. 2005-217-WS. ORS removes book value of \$102,188 for plant. | | | |
| Per ORS | (102,188) | (102,188) | 0 |
| Per USSC | (132,242) | (132,242) | 0 |
| 34. ORS proposes an extraordinary retirement of wells, structures, and storage tanks as ordered in Docket No. 2005-217-WS. ORS removes plant book value of \$30,054. ORS also removes wells, structures, and storage tanks that USSC has extraordinarily retired for \$143,199. | | | |
| Per ORS | (173,253) | (173,253) | 0 |
| Per USSC | (126,989) | (126,989) | 0 |
| 35. ORS proposes to remove plant costs associated with Arrowhead Shores and Lakewood Estates which were transferred per Order No. 2007-580. | | | |
| Per ORS | (186,387) | (186,828) | 441 |
| Per USSC | 0 | 0 | 0 |
| 36. ORS proposes to remove plant costs associated with Pleasant Hill which was transferred per Order No. 2006-350 and South Congaree which was transferred per Order No. 2002-567. | | | |
| Per ORS | (4,863) | (4,863) | 0 |
| Per USSC | 0 | 0 | 0 |
| 37. ORS and USSC propose to remove organizational costs as ordered in the last rate case. | | | |
| Per ORS | (25,417) | 0 | (25,417) |
| Per USSC | (25,417) | 0 | (25,417) |
| Total Gross Plant In Service - Per ORS | 164,726 | 92,721 | 72,005 |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| Description | Combined \$ | Water \$ | Sewer \$ |
|---|----------------|----------------|---------------|
| (K) Accumulated Depreciation | | | |
| 38. ORS and USSC propose to adjust accumulated depreciation for the additional plant and capitalized time. | | | |
| Per ORS | 55,576 | 53,773 | 1,803 |
| Per USSC | (31,503) | (29,338) | (2,165) |
| 39. ORS and USSC propose to adjust accumulated depreciation for the excess vehicle allocation. | | | |
| Per ORS | 352,284 | 333,965 | 18,319 |
| Per USSC | 217,143 | 205,852 | 11,291 |
| 40. ORS and USSC propose to adjust accumulated depreciation for prior commission orders. | | | |
| Per ORS | 39,480 | 39,480 | 0 |
| Per USSC | 46,229 | 46,124 | 105 |
| 41. ORS and USSC propose to adjust accumulated depreciation for pro forma retirements. ORS proposes using the ratio of accumulated depreciation to water and sewer plant at 12/31/06. USSC proposes 100% of plant retirement. | | | |
| Per ORS | 17,903 | 17,903 | 0 |
| Per USSC | 192,667 | 192,667 | 0 |
| 42. ORS proposes to adjust accumulated depreciation for the extraordinary retirement of wells, tanks, and other structures. | | | |
| Per ORS | 22,454 | 22,454 | 0 |
| Per USSC | 0 | 0 | 0 |
| 43. ORS proposes to adjust accumulated depreciation for the transfer of four subdivisions. | | | |
| Per ORS | (30,515) | (30,515) | 0 |
| Per USSC | 0 | 0 | 0 |
| Total Accumulated Depreciation - Per ORS | 457,182 | 437,060 | 20,122 |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> | <u>Water</u> | <u>Sewer</u> |
|--|---------------------------|---------------------------|-----------------------|
| | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| <u>(L) Cash Working Capital</u> | | | |
| 44. ORS and USSC propose to adjust Cash Working Capital based on pro forma expenses. | | | |
| Per ORS | (7,383) | (7,447) | 64 |
| Per USSC | 19,532 | 18,185 | 1,347 |
| <u>Total Cash Working Capital - Per ORS</u> | <u>(7,383)</u> | <u>(7,447)</u> | <u>64</u> |
| <u>(M) Plant Acquisition Adjustment</u> | | | |
| 45. ORS and USSC propose to remove the unamortized balance of (\$1,200,820) Plant Acquisition Adjustment from rate base as per the order in the prior rate case. | | | |
| Per ORS | (1,200,820) | (1,200,820) | 0 |
| Per USSC | (1,200,820) | (1,200,820) | 0 |
| <u>Total Plant Acquisition Adjustment - Per ORS</u> | <u>(1,200,820)</u> | <u>(1,200,820)</u> | <u>0</u> |
| <u>(N) Deferred Maintenance</u> | | | |
| 46. ORS and USSC propose to remove deferred maintenance from rate base. | | | |
| Per ORS | (28,218) | (21,477) | (6,741) |
| Per USSC | (28,218) | (21,477) | (6,741) |
| <u>Total Deferred Maintenance - Per ORS</u> | <u>(28,218)</u> | <u>(21,477)</u> | <u>(6,741)</u> |
| <u>COMPANY'S PROPOSED INCREASE AS COMPUTED BY ORS WATER/WASTEWATER DEPARTMENT</u> | | | |
| <u>(O) Service Revenues</u> | | | |
| 47. USSC proposes an increase in service revenues. | | | |
| Per ORS | 1,397,664 | 1,376,368 | 21,296 |
| Per USSC | 1,413,346 | 1,393,267 | 20,079 |
| <u>Total Service Revenues</u> | <u>1,397,664</u> | <u>1,376,368</u> | <u>21,296</u> |

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| <u>Description</u> | <u>Combined</u> \$ | <u>Water</u> \$ | <u>Sewer</u> \$ |
|---|------------------------|------------------------|---------------------|
| <u>(P) Miscellaneous Revenues</u> | | | |
| 48. ORS proposes to adjust miscellaneous revenues to reflect current customers at current rates. | | | |
| Per ORS | 6,170 | 3,979 | 2,191 |
| Per USSC | 0 | 0 | 0 |
| <u>Total Miscellaneous Revenues</u> | <u>6,170</u> | <u>3,979</u> | <u>2,191</u> |
| <u>(Q) Uncollectible Accounts</u> | | | |
| 49. ORS and USSC propose to adjust Uncollectible Accounts expense for the proposed revenue increase. | | | |
| Per ORS | (15,115) | (14,850) | (265) |
| Per USSC | (15,321) | (15,114) | (207) |
| <u>Total Uncollectible Accounts</u> | <u>(15,115)</u> | <u>(14,850)</u> | <u>(265)</u> |
| <u>(R) Taxes Other Than Income</u> | | | |
| 50. ORS and USSC propose to adjust utility/commission tax and gross receipts taxes for the net proposed revenue. | | | |
| Per ORS | 14,145 | 13,908 | 237 |
| Per USSC | 16,112 | 15,883 | 229 |
| <u>Total Taxes Other Than Income</u> | <u>14,145</u> | <u>13,908</u> | <u>237</u> |
| <u>(S) Income Taxes</u> | | | |
| 51. ORS and USSC propose to adjust income taxes for the proposed increase using a state tax rate of 5% and a federal tax rate of 35%. | | | |
| Per ORS | 525,775 | 516,982 | 8,793 |
| Per USSC | 528,581 | 521,068 | 7,513 |
| <u>Total Income Taxes</u> | <u>525,775</u> | <u>516,982</u> | <u>8,793</u> |

Utilities Services of South Carolina, Inc.
Depreciation and Amortization Adjustment
Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| | <u>Combined</u> \$ | <u>Water</u> \$ | <u>Sewer</u> \$ |
|---|-----------------------|--------------------|--------------------|
| Gross Plant | | | |
| Gross Plant at 12-31-2006 | 11,134,107 | 10,778,046 | 356,061 |
| Add: | | | |
| General Ledger Additions and Capitalized Time After Test Year | 477,882 | 442,497 | 35,385 |
| Pro Forma Projects | 841,096 | 752,230 | 88,866 |
| Total Gross Plant In Service | 12,453,085 | 11,972,773 | 480,312 |
| Less: | | | |
| Land | (239,058) | (239,058) | 0 |
| Organizational Costs | (200,386) | (174,969) | (25,417) |
| Pro forma project retirements | (137,713) | (137,713) | 0 |
| Elevated Storage Tank | (102,188) | (102,188) | 0 |
| Extraordinary Retirement (Prior and Current Rate Cases) | (173,253) | (173,253) | 0 |
| Computers | (156,409) | (148,276) | (8,133) |
| Vehicles | (708,990) | (672,123) | (36,867) |
| Lakewood and Arrowhead Transfer | (186,387) | (186,828) | 441 |
| South Congaree and Pleasant Hill Transfer | (4,863) | (4,863) | 0 |
| Net Plant | 10,543,838 | 10,133,502 | 410,336 |
| Plant Depreciation @ 1.5% (66.67 years) | 158,158 | 152,003 | 6,155 |
| Computers | 156,409 | 148,276 | 8,133 |
| Less: Fully Depreciated Computers | (156,409) | (148,276) | (8,133) |
| Net Computers | 0 | 0 | 0 |
| Computer Depreciation @ 25% (4 years) | 0 | 0 | 0 |
| Vehicles (ORS Restated Amount) | 184,559 | 174,962 | 9,597 |
| Less: Fully Depreciated Vehicles | (20,175) | (19,126) | (1,049) |
| Net Vehicles | 164,384 | 155,836 | 8,548 |
| Vehicle Depreciation @ 25% (4 years) | 41,096 | 38,959 | 2,137 |
| Extraordinary Depreciation for Test Year | 12,075 | 12,075 | 0 |
| Extraordinary Depreciation from Prior Rate Case | 2,168 | 2,168 | 0 |
| Total Depreciation | 213,497 | 205,205 | 8,292 |
| Less: Per Book Depreciation | (269,073) | (258,978) | (10,095) |
| ORS Depreciation Adjustment | (55,576) | (53,773) | (1,803) |
| Contributions in Aid of Construction | \$ | \$ | \$ |
| Gross CIAC at 12-31-2006 | 109,542 | 109,542 | 0 |
| CIAC Amortization @ 1.5% (66.67 years) | (1,643) | (1,643) | 0 |
| Less: Per Book Amortization of CIAC | (863) | (863) | 0 |
| ORS CIAC Amortization Adjustment | (780) | (780) | 0 |
| Purchase Acquisition Adjustment | | | |
| Gross PAA per 2005-217-W/S | 1,159,372 | 1,159,372 | 0 |
| PAA Amortization @ 10% | 115,937 | 115,937 | 0 |
| Less: Per Book Amortization of PAA | 19,473 | 19,473 | 0 |
| ORS PAA Amortization Adjustment | 96,464 | 96,464 | 0 |
| ORS Amortization Adjustment | 95,684 | 95,684 | 0 |
| Total Depreciation and Amortization | 40,108 | 41,911 | (1,803) |

Utilities Services of South Carolina, Inc.
Computation of Income Taxes
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| | After ORS Accounting and Pro Forma Adjustments | | |
|--------------------------------------|---|-----------------------------|-----------------------------|
| | Combined Operations | Water Operations | Sewer Operations |
| | \$ | \$ | \$ |
| Operating Revenue | 3,026,716 | 2,814,416 | 212,300 |
| Less: Operating Expenses | <u>(2,828,555)</u> | <u>(2,663,490)</u> | <u>(165,065)</u> |
| Net Operating Income Before Taxes | 198,161 | 150,926 | 47,235 |
| Less: Annualized Interest Expense | <u>(359,721)</u> | <u>(345,371)</u> | <u>(14,350)</u> |
| Taxable Income - State | (161,560) | (194,445) | 32,885 |
| State Income Taxes @ 5% | <u>5.00%</u> | <u>5.00%</u> | <u>5.00%</u> |
| State Income Taxes | <u>(8,078)</u> | <u>(9,722)</u> | <u>1,644</u> |
| Taxable Income - Federal | (153,482) | (184,723) | 31,241 |
| Federal Tax Rate @ 35% | <u>35.00%</u> | <u>35.00%</u> | <u>35.00%</u> |
| Total Federal Income Taxes | <u>(53,719)</u> | <u>(64,653)</u> | <u>10,934</u> |
| Total Federal and State Income Taxes | (61,797) | (74,375) | 12,578 |
| Less: Income Taxes Per Book | <u>(141,914)</u> | <u>(133,556)</u> | <u>(8,358)</u> |
| Adjustment | <u>80,117</u> | <u>59,181</u> | <u>20,936</u> |

| | After Company's Proposed Increase | | |
|--------------------------------------|--|-----------------------------|-----------------------------|
| | Combined Operations | Water Operations | Sewer Operations |
| | \$ | \$ | \$ |
| Operating Revenue | 4,415,435 | 4,179,913 | 235,522 |
| Less: Operating Expenses | <u>(2,842,700)</u> | <u>(2,677,398)</u> | <u>(165,302)</u> |
| Net Operating Income Before Taxes | 1,572,735 | 1,502,515 | 70,220 |
| Less: Annualized Interest Expense | <u>(359,721)</u> | <u>(345,371)</u> | <u>(14,350)</u> |
| Taxable Income - State | 1,213,014 | 1,157,144 | 55,870 |
| State Income Taxes @ 5% | <u>60,651</u> | <u>57,857</u> | <u>2,794</u> |
| Taxable Income - Federal | 1,152,363 | 1,099,287 | 53,076 |
| Federal Income Taxes - @ 35% | <u>403,327</u> | <u>384,750</u> | <u>18,577</u> |
| Total State and Federal Income Taxes | 463,978 | 442,607 | 21,371 |
| Less: Income Taxes As Adjusted | <u>(61,797)</u> | <u>(74,375)</u> | <u>12,578</u> |
| Adjustment | <u>525,775</u> | <u>516,982</u> | <u>8,793</u> |

Utilities Services of South Carolina, Inc.
Cash Working Capital Allowance
For the Test Year Ended December 31, 2006
Docket No. 2007-286-W/S

| | <u>After ORS Accounting & Pro Forma Adjustments</u> | | |
|--|---|-----------------------------|-----------------------------|
| | <u>Combined Operations</u> | <u>Water Operations</u> | <u>Sewer Operations</u> |
| | \$ | \$ | \$ |
| Operating and Maintenance Expenses | 1,351,707 | 1,255,022 | 96,685 |
| General and Administrative Expenses | <u>710,995</u> | <u>674,023</u> | <u>36,972</u> |
| Total Expenses for Computation | 2,062,702 | 1,929,045 | 133,657 |
| 45-Day Allowance (1/8 Rate) | <u>12.50%</u> | <u>12.50%</u> | <u>12.50%</u> |
| Computed Cash Working Capital | 257,838 | 241,131 | 16,707 |
| Cash Working Capital - Per Books | <u>265,221</u> | <u>248,578</u> | <u>16,643</u> |
| Cash Working Capital Adjustment - ORS | <u>(7,383)</u> | <u>(7,447)</u> | <u>64</u> |
| Cash Working Capital Adjustment - USSC | <u>(10,301)</u> | <u>(12,059)</u> | <u>1,758</u> |

Utilities Services of South Carolina, Inc.
Return On Common Equity
Capital Structure at December 31, 2006
Docket No. 2007-286-W/S

| Description | Capital Structure | <u>Combined</u> | | | | | <u>After Company's Proposed Increase</u> | | | | |
|----------------|-------------------|---|-----------|-------------|-------------|----------|--|-------------|-------------|-----------|--|
| | | <u>After ORS Accounting & Pro Forma Adjustments</u> | | | | | <u>Income</u> | | | | |
| | | Ratio | Rate | Embedded | Overall | Income | Rate | Embedded | Overall | Income | |
| | | % | \$ | Cost/Return | Cost/Return | For | Base | Cost/Return | Cost/Return | For | |
| Long-Term Debt | 180,000,000 | 59.83% | 5,450,310 | 6.60% | 3.95% | 359,720 | 5,450,310 | 6.60% | 3.95% | 359,720 | |
| Common Equity | 120,831,226 | 40.17% | 3,659,350 | -2.71% | -1.09% | (99,031) | 3,659,350 | 20.56% | 8.26% | 752,476 | |
| Totals | 300,831,226 | 100.00% | 9,109,660 | | 2.86% | 260,689 | 9,109,660 | | 12.21% | 1,112,196 | |

| Description | Capital Structure | <u>Water</u> | | | | | <u>After Company's Proposed Increase</u> | | | | |
|----------------|-------------------|---|-----------|-------------|-------------|-----------|--|-------------|-------------|-----------|--|
| | | <u>After ORS Accounting & Pro Forma Adjustments</u> | | | | | <u>Income</u> | | | | |
| | | Ratio | Rate | Embedded | Overall | Income | Rate | Embedded | Overall | Income | |
| | | % | \$ | Cost/Return | Cost/Return | For | Base | Cost/Return | Cost/Return | For | |
| Long-Term Debt | 180,000,000 | 59.83% | 5,232,891 | 6.60% | 3.95% | 345,371 | 5,232,891 | 6.60% | 3.95% | 345,371 | |
| Common Equity | 120,831,226 | 40.17% | 3,513,375 | -3.40% | -1.37% | (119,339) | 3,513,375 | 20.44% | 8.21% | 717,976 | |
| Totals | 300,831,226 | 100.00% | 8,746,266 | | 2.58% | 226,032 | 8,746,266 | | 12.16% | 1,063,347 | |

| Description | Capital Structure | <u>Sewer</u> | | | | | <u>After Company's Proposed Increase</u> | | | | |
|----------------|-------------------|---|---------|-------------|-------------|--------|--|-------------|-------------|--------|--|
| | | <u>After ORS Accounting & Pro Forma Adjustments</u> | | | | | <u>Income</u> | | | | |
| | | Ratio | Rate | Embedded | Overall | Income | Rate | Embedded | Overall | Income | |
| | | % | \$ | Cost/Return | Cost/Return | For | Base | Cost/Return | Cost/Return | For | |
| Long-Term Debt | 180,000,000 | 59.83% | 217,419 | 6.60% | 3.95% | 14,350 | 217,419 | 6.60% | 3.95% | 14,350 | |
| Common Equity | 120,831,226 | 40.17% | 145,975 | 13.91% | 5.59% | 20,307 | 145,975 | 23.63% | 9.49% | 34,499 | |
| Totals | 300,831,226 | 100.00% | 363,394 | | 9.54% | 34,657 | 363,394 | | 13.44% | 48,849 | |

Used Capital Structure of Utilities, Inc. and Subsidiaries @ 12-31-2006